

# STATE REVENUE REPORT

Fiscal Studies Program  
The Nelson A. Rockefeller Institute of Government

December 2003  
No. 54

## State Tax Revenue Grows Slightly

Nicholas W. Jenny

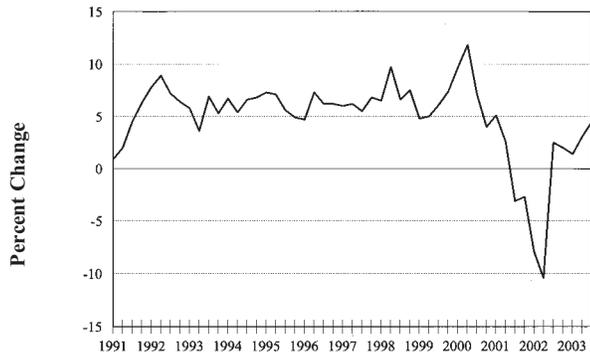
### HIGHLIGHTS

- ❖ State tax revenue in the July-September 2003 quarter grew by 4.5 percent compared to the same period in 2002. After adjusting for tax law changes and inflation, however, real underlying state tax revenue grew by only 0.4 percent.
- ❖ States enacted net tax increases for the seventh quarter in a row. This quarter's net increases added an estimated \$2.1 billion to state tax revenue.
- ❖ Personal income tax revenue grew by 5.1 percent, the first quarter of growth in over two years.
- ❖ Corporate income tax revenue grew by nine percent.
- ❖ Sales tax revenue grew by only 3.7 percent, including the effects of some large enacted tax increases.

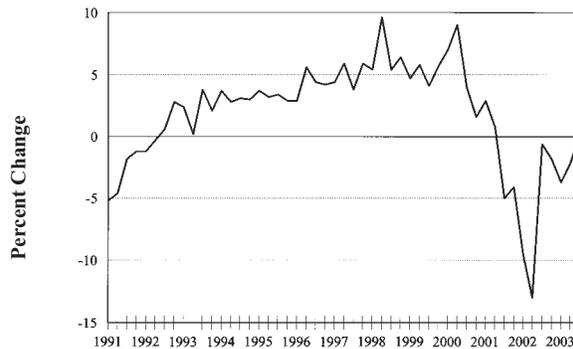
### TABLE OF CONTENTS

Introduction . . . . .	3
Tax Revenue Change . . . . .	3
Personal Income Tax . . . . .	4
Withholding . . . . .	5
Estimated Payments . . . . .	5
General Sales Tax . . . . .	6
Corporate Income Tax . . . . .	6
Underlying Reasons for Trends . . . . .	7
State Economies . . . . .	7
Nature of the Tax System . . . . .	8
Tax Law Changes Affecting This Quarter . . . . .	10
Conclusions . . . . .	10
Endnotes . . . . .	10
About the Fiscal Studies Program . . . . .	12

**Figure 1. Year-Over-Year Change in Total Tax Collections, 1991-2003**



**Figure 2. Year-Over-Year Change in Real Adjusted Tax Revenue, 1991-2003**



**Table 1. Year-Over-Year Change in Quarterly State Tax Revenue, Adjusting for Legislated Tax Changes and Inflation**

	<i>Total Nominal Increase</i>	<i>Adjusted Nominal Increase</i>	<i>Inflation Rate</i>	<i>Real Increase</i>
<b>1997</b>				
Jan.-Mar.	6.0	7.4	2.3	5.0
April-June	6.2	8.3	2.8	5.4
July-Sept.	5.5	6.1	2.5	3.5
Oct.-Dec.	6.8	7.9	2.7	5.1
<b>1998</b>				
Jan.-Mar.	6.5	7.0	1.8	5.1
April-June	9.7	11.4	1.8	9.4
July-Sept.	6.6	7.1	1.8	5.2
Oct.-Dec.	7.5	8.0	1.5	6.4
<b>1999</b>				
Jan.-Mar.	4.8	6.5	1.9	4.5
April-June	5.0	8.0	2.7	5.2
July-Sept.	6.1	6.7	3.2	3.4
Oct.-Dec.	7.4	8.4	3.7	4.5
<b>2000</b>				
Jan.-Mar.	9.7	10.4	4.4	5.7
April-June	11.4	11.8	4.3	7.2
July-Sept.	7.1	7.7	4.3	3.3
Oct.-Dec.	4.0	5.0	4.3	0.7
<b>2001</b>				
Jan.-Mar.	5.1	6.3	4.0	2.2
April-June	2.5	4.2	3.4	0.8
July-Sept.	(3.1)	(2.4)	2.3	(4.6)
Oct.-Dec.	(2.7)	(2.2)	1.2	(3.4)
<b>2002</b>				
Jan.-Mar.	(7.8)	(8.2)	0.5	(8.7)
April-June	(10.6)	(12.1)	0.8	(12.8)
July-Sept.	2.5	0.7	1.3	(0.6)
Oct.-Dec.	1.9	0.3	2.0	(1.7)
<b>2003</b>				
Jan.-Mar.	1.4	(1.0)	3.4	(4.3)
April-June	3.2	0.4	2.2	(1.8)
July-Sept.	4.5	2.6	2.2	0.4

*Note:* Inflation is measured by the BEA State and Local Government Implicit Price Deflator.  
Please call the Fiscal Studies Program for pre-1997 data.

**Table 2. Year-Over-Year Change in Quarterly State Tax Revenue by Major Tax**

	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>
<b>1997</b>				
Jan.-Mar.	7.1	9.6	4.7	6.0
April-June	8.8	7.6	4.3	6.2
July-Sept.	8.4	(2.8)	5.8	5.5
Oct.-Dec.	8.3	4.5	5.3	6.8
<b>1998</b>				
Jan.-Mar.	9.3	2.3	5.6	6.5
April-June	19.5	(2.1)	5.3	9.7
July-Sept.	8.9	(0.2)	5.9	6.6
Oct.-Dec.	9.5	5.2	5.5	7.5
<b>1999</b>				
Jan.-Mar.	6.6	(2.6)	6.1	4.8
April-June	6.0	(2.1)	7.3	5.0
July-Sept.	7.6	1.4	6.7	6.1
Oct.-Dec.	9.1	3.8	7.3	7.4
<b>2000</b>				
Jan.-Mar.	13.6	8.0	8.2	9.7
April-June	18.8	4.2	7.3	11.4
July-Sept.	11.0	5.7	4.7	7.1
Oct.-Dec.	5.7	(7.7)	4.1	4.0
<b>2001</b>				
Jan.-Mar.	8.6	(9.1)	3.3	5.1
April-June	5.6	(13.7)	0.5	2.6
July-Sept.	(3.4)	(25.5)	0.0	(3.1)
Oct.-Dec.	(2.7)	(31.8)	1.0	(2.7)
<b>2002</b>				
Jan.-Mar.	(14.3)	(16.1)	(1.0)	(7.8)
April-June	(22.3)	(11.7)	1.5	(10.4)
July-Sept.	(1.6)	4.8	3.8	2.5
Oct.-Dec.	(0.7)	22.4	0.7	1.9
<b>2003</b>				
Jan.-Mar.	(3.1)	9.6	1.9	1.4
April-June	(0.7)	17.8	2.9	3.2
July-Sept.	5.1	9.0	3.7	4.5

*Note:* Please call the Fiscal Studies Program for pre-1997 data.

## Introduction

State tax revenue grew by 4.5 percent in the July-September quarter of 2003, compared to the same quarter the year before. Without the contribution of net enacted tax increases, this growth would have been only 2.6 percent. If we also take into account the effects of inflation, real adjusted state tax revenue grew by only 0.4 percent – the first real adjusted growth since the April-June quarter of 2001. (See Table 1.) This is the third straight quarter of strengthening revenue growth.

Personal income tax revenue grew by 5.1 percent, the first quarter of growth in over two years. Sales tax revenue grew by 3.7 percent. Corporate income taxes grew by nine percent. (See Table 2.) This is the first quarter since July-September 2000 that revenue from all three major state taxes has grown in the same quarter.

## Tax Revenue Change

Table 1 shows tax revenue changes for the last 27 quarters before and after adjusting for legislated tax changes and inflation. Figure 1 shows the pattern of growth or decline in state tax collections from 1991 to the present. State tax revenue declined from July 2001 to June 2002; since then it has been growing, but at a much slower rate than the median growth rate of 6.6 percent from 1997 through 2000. Tax increases enacted in many states over the last three years have contributed to revenue growth. Without them, revenue growth would have been very sluggish, and only in the latest quarter would it have exceeded inflation. Figure 2 shows the pattern of growth in state tax revenue adjusted for inflation and enacted tax increases from 1991 to the present. It is only with the July-September 2003 quarter that states began to see some slight underlying growth in their tax revenue.

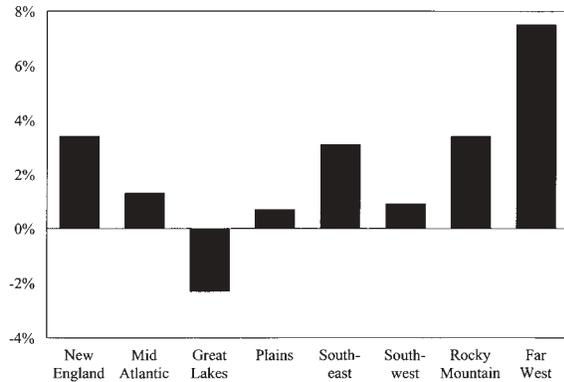
Table 2 shows the last 27 quarters of change in state collections of the major state tax sources. Personal income tax collections have finally shown growth after eight straight quarters of decline. Corporate income taxes posted growth for the fifth straight quarter, while sales tax revenue grew for the sixth straight quarter.

**Table 3. Change in Quarterly Tax Revenue by State, July to September 2002 to 2003**

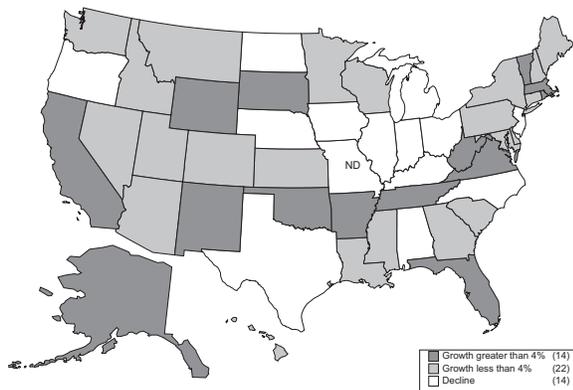
	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>
<b>United States</b>	<b>5.1%</b>	<b>9.0%</b>	<b>3.7%</b>	<b>4.5%</b>
<b>New England</b>	<b>5.1</b>	<b>29.1</b>	<b>2.3</b>	<b>4.2</b>
Connecticut	5.2	(15.7)*	3.5	1.9*
Maine	4.1	1.0	6.6	7.9*
Massachusetts	4.9	57.8	0.5	4.5
New Hampshire	NA	(0.6)	NA	2.0
Rhode Island	8.0	32.5	4.1	6.6
Vermont	4.1	54.7	2.7	6.9
<b>Mid-Atlantic</b>	<b>7.0</b>	<b>7.5</b>	<b>5.9</b>	<b>5.7</b>
Delaware	6.2	(4.3)	NA	4.9*
Maryland	5.1*	14.0	5.2	4.9*
New Jersey	2.6	21.2	2.6	3.5*
New York	9.5*	3.9*	11.5*	8.1*
Pennsylvania	3.0	(1.1)	1.3	2.3
<b>Great Lakes</b>	<b>(0.2)</b>	<b>0.6</b>	<b>4.4</b>	<b>2.7</b>
Illinois	1.2	(7.9)	1.1*	1.8*
Indiana	2.2	(13.7)¶	19.8*	7.3*
Michigan	(5.4)	(2.3)	(4.9)	(0.3)*
Ohio	1.1	NM	10.9*	5.4*
Wisconsin	2.0	13.3	3.0	2.6
<b>Plains</b>	<b>3.6</b>	<b>(3.1)</b>	<b>2.3</b>	<b>2.2</b>
Iowa	3.0	(28.1)	(0.2)	(0.1)
Kansas	3.9	39.6	5.1*	5.3*
Minnesota	4.0	(4.2)	0.5	2.3
Missouri	ND	ND	ND	ND
Nebraska	2.0*	43.1	11.1*	2.5*
North Dakota	4.5	(39.5)	(7.8)	(5.6)
South Dakota	NA	NA	4.3	5.5
<b>Southeast</b>	<b>2.7</b>	<b>(4.3)</b>	<b>3.5</b>	<b>3.4</b>
Alabama	2.1	(43.6)	(1.1)	(3.2)
Arkansas	2.7	9.7	3.6	5.6*
Florida	NA	2.2	5.0	6.7*
Georgia	0.1	(6.3)	6.6¶	3.2*
Kentucky	4.9	(4.4)	(3.6)	(1.1)
Louisiana	13.0*	71.3	(4.8)¶	2.5
Mississippi	(2.9)	(12.5)	(11.8)	(6.9)¶
North Carolina	0.7	(19.6)	4.1	0.1
South Carolina	2.0	63.3	3.8	2.7
Tennessee	NA	7.6	11.6*	9.2*
Virginia	6.5	25.6	6.8	8.4
West Virginia	(4.2)	(2.6)	1.5	9.0*
<b>Southwest</b>	<b>5.6</b>	<b>3.2</b>	<b>0.5</b>	<b>1.5</b>
Arizona	(0.1)	13.6	6.5	4.4*
New Mexico	11.6¶	(12.3)	6.3	12.3
Oklahoma	9.6	(12.4)	5.0	10.6
Texas	NA	NA	(1.3)	(1.5)
<b>Rocky Mountain</b>	<b>4.2</b>	<b>3.1</b>	<b>5.2</b>	<b>5.5</b>
Colorado	4.1	19.5	1.2	3.7
Idaho	4.8	(13.3)	20.6*	10.5*
Montana	6.4	(13.4)	NA	8.0*
Utah	3.3	(3.9)	0.6	2.4
Wyoming	NA	NA	11.5	44.8*
<b>Far West</b>	<b>10.5</b>	<b>26.3</b>	<b>4.6</b>	<b>8.5</b>
Alaska	NA	(24.8)	NA	10.9
California	11.7	25.8	4.5	9.5
Hawaii	3.0¶	95.2	0.0¶	(0.1)¶
Nevada	NA	NA	10.7	11.7*
Oregon	4.0*	45.8	NA	6.3*
Washington	NA	NA	4.3	5.5*

See p. 5 for notes

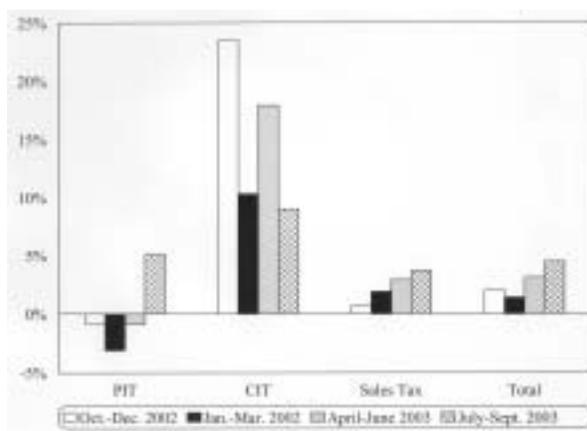
**Figure 3**  
**Percent Change in Tax Revenue by Region,**  
**Adjusted for Legislated Changes**  
**July-September 2002 to 2003**



**Figure 4**  
**Change in Quarterly Tax Revenue by State, Adjusted for**  
**Legislated Changes, July-September 2002 to 2003**



**Figure 5**  
**Change in Quarterly Tax Revenue by Tax,**  
**Last Four Quarters**



Every region had growth in revenue in the July-September quarter. (See Table 3.) The strongest growth was in the Far West at 8.5 percent. The slowest growth was in the Southwest at 1.5 percent.

Enacted net tax increases affected every region of the country. (See Figure 3.) Without these increases, revenue in the Great Lakes states would have actually declined. Tax increases also significantly boosted revenue collections in the Mid-Atlantic, Plains, Rocky Mountain, and Far West regions. Figure 4 shows state revenue growth adjusted for enacted revenue changes. Figure 5 shows the change in the major taxes over the last four quarters.

Table 4 shows the overall effect of enacted tax changes and processing variations. In all, states enacted net tax hikes of \$2.1 billion in the July-September 2003 quarter. Table 5 has state-by-state breakdowns of the effects of legislation and inflation.

### Personal Income Tax

The July-September quarter is probably the least important of the four quarters for personal income tax collections. Taxpayers file final returns in April, the fourth and final estimated tax payment is due in January, and the payment of most bonuses comes in December or January. Nevertheless, capital gains or losses, stock options, and other non-wage income can still have some impact on the third estimated tax payment, which is due this quarter. In general, however, the relatively low impact of these extra factors means that underlying trends affecting personal income tax revenues tend to be most visible in the July-September quarter. We see these trends most clearly in withholding, although some non-wage income, such as proceeds from exercising stock options, can show up in withholding as well.

Personal income tax revenue grew by 5.1 percent in the July-September quarter compared to the same quarter the year before. This was the first quarter of growth after eight straight quarters of decline. The strongest growth was in the Far West region at 10.5 percent, while the weakest was in the Great Lakes region, where personal income tax

**Table 4. Change in Quarterly Tax Revenue,  
Adjusting for Legislated Tax Changes**

	<i>PIT</i>	<i>Sales</i>	<i>Total</i>
<b>1997</b>			
Jan.-Mar.	10.0	5.0	7.4
April-June	12.8	5.0	8.3
July-Sept.	9.5	6.2	6.1
Oct.-Dec.	10.7	5.9	7.9
<b>1998</b>			
Jan.-Mar.	10.0	6.5	7.0
April-June	23.3	5.9	11.4
July-Sept.	9.3	6.4	7.1
Oct.-Dec.	10.2	5.9	6.9
<b>1999</b>			
Jan.-Mar.	9.9	6.2	6.5
April-June	12.4	7.3	8.0
July-Sept.	8.3	6.9	6.5
Oct.-Dec.	11.0	7.5	8.4
<b>2000</b>			
Jan.-Mar.	13.8	8.8	10.4
April-June	18.6	7.8	11.8
July-Sept.	11.6	5.6	7.7
Oct.-Dec.	6.5	5.0	5.0
<b>2001</b>			
Jan.-Mar.	10.1	3.7	6.3
April-June	7.9	0.6	4.2
July-Sept.	(2.8)	0.4	(2.4)
Oct.-Dec.	(2.1)	1.2	(2.3)
<b>2002</b>			
Jan.-Mar.	(14.5)	(2.4)	(8.4)
April-June	(22.5)	0.1	(11.9)
July-Sept.	(2.1)	2.7	0.7
Oct.-Dec.	(1.6)	0.7	0.3
<b>2003</b>			
Jan.-Mar.	(4.4)	1.0	(1.0)
April-June	(2.0)	1.3	0.4
July-Sept.	4.0	1.8	2.6

Note: The corporate income tax is not included in this table. The quarterly effect of legislation on this tax's revenue is especially uncertain. (See Technical Notes, page 15.)  
For pre-1997 data, call the Fiscal Studies Program.

revenue dropped 0.2 percent. The growth was widespread; all but five of the 41 states with a broad-based personal income tax had growth. The state with the strongest growth was Louisiana, which owed most of its 13 percent growth to a tax increase. California and New Mexico also had double-digit growth, but without the aid of tax increases. Michigan had the largest decline at 5.4 percent.

We can get a better idea of what is really happening with the personal income tax by looking at two of its components: withholding and quarterly

estimated payments. Final settlements are not a significant factor in this quarter.

### *Withholding*

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and because it is much less volatile than estimated/declared payments or final settlements. Table 6 shows that withholding for the July-September 2003 quarter increased by 4.6 percent over the same quarter the year before. Enacted changes in withholding boosted collections by about one percent in this quarter. Overall, withholding growth has been getting stronger over the last year.

### *Estimated Payments*

The highest-income taxpayers generally pay most estimated tax payments (also known as declarations) on their non-wage income. This income often comes from investments, especially capital gains realized in the stock market. The decline in the stock market from early 2000 has dried up capital gains, which in turn has reduced the stream of estimated payments. Although lately the stock market has staged a turnaround, this has not yet translated into tax revenue from stronger capital gains.

For the 35 state for which we have complete data, estimated tax payments in September (the third quarterly payment) increased by 0.6 percent.

## **Key to Interpreting Tables**

- All percent change tables are based on year-over-year changes.
- \* indicates legislation or processing/accounting changes significantly increased tax receipts (by one percentage point or more).
- ¶ indicates legislation or processing/accounting changes significantly decreased tax receipts.
- NA means not applicable.
- ND means no data.
- NM means not meaningful.
- Historical Tables (Tables 1, 2 and 4) have been shortened to provide data only back to 1997. For data through 1991 call the Fiscal Studies Program.

(See Table 7.) However, estimated tax payments in New York increased sharply, probably due to the increase in the top personal income tax rate – the one that applies to most taxpayers who make estimated payments. The median decline in states' estimated tax payments was 1.1 percent. Cumulatively, the three quarterly estimated tax payments to date amount to four percent less than the year before, which was already a very weak year. Since final payments often mirror the strength and direction of estimated payments, the decline we are seeing is a bad sign for April 2004. On the plus side, the decline seems to be moderating. We will have a much better sense of the way things are going when we get the results of the final estimated payment in December and January.

### General Sales Tax

Sales tax revenue in the July-September 2003 quarter increased by 3.7 percent over the same quarter the year before. This is the third straight quarter of strengthening growth. However, sales tax growth was still rather sluggish and has not topped four percent since October-December 2000.

Sales tax revenue grew the fastest in the Mid-Atlantic region with 5.9 percent growth. The weakest growth was in the Southwest region, where sales tax revenue increased by only 0.5 percent. Eight states had double-digit growth in sales tax revenue.<sup>1</sup> In six of these states, the increase was due completely or in part to enacted tax increases.<sup>2</sup> Only one state – Mississippi – had a double-digit sales tax revenue decline, while seven other states had smaller declines.<sup>3</sup>

### Corporate Income Tax

Corporate income tax revenue grew by nine percent in the July-September quarter, the fifth straight quarter of growth after seven quarters of decline. The growth this quarter in this notoriously volatile revenue source was about half of the previous quarter's 17.9 percent growth.

**Table 5. Percent Change in Quarterly Tax Revenue by State, Adjusted for Legislation and Inflation, July to September 2002 to 2003**

<b>United States</b>	<b>0.4%</b>
<b>New England</b>	<b>1.4</b>
Connecticut	(2.2)
Maine	3.2
Massachusetts	2.3
New Hampshire	(0.2)
Rhode Island	3.4
Vermont	4.6
<b>Mid-Atlantic</b>	<b>(0.9)</b>
Delaware	0.8
Maryland	1.2
New Jersey	(2.3)
New York	(1.1)
Pennsylvania	(0.4)
<b>Great Lakes</b>	<b>(3.5)</b>
Illinois	(2.4)
Indiana	(4.1)
Michigan	(5.4)
Ohio	(4.2)
Wisconsin	0.3
<b>Plains</b>	<b>(1.5)</b>
Iowa	(2.3)
Kansas	0.4
Minnesota	0.0
Missouri	ND
Nebraska	(7.0)
North Dakota	(7.8)
South Dakota	2.3
<b>Southeast</b>	<b>1.0</b>
Alabama	(5.3)
Arkansas	1.8
Florida	4.1
Georgia	(0.2)
Kentucky	(3.4)
Louisiana	(0.3)
Mississippi	0.1
North Carolina	(2.3)
South Carolina	0.4
Tennessee	4.5
Virginia	6.0
West Virginia	3.2
<b>Southwest</b>	<b>(1.3)</b>
Arizona	(0.3)
New Mexico	9.6
Oklahoma	7.6
Texas	(3.9)
<b>Rocky Mountain</b>	<b>1.2</b>
Colorado	1.5
Idaho	0.1
Montana	1.2
Utah	(0.4)
Wyoming	32.4
<b>Far West</b>	<b>5.4</b>
Alaska	8.5
California	7.1
Hawaii	(1.0)
Nevada	(0.7)
Oregon	(4.9)
Washington	2.7

**Table 6. Change in Personal Income Tax Withholding by State, Last Four Quarters**

	2002		2003	
	Oct.-Dec	Jan-Mar	Apr-June	July-Sept
<b>United States</b>	<b>0.2%</b>	<b>2.0%</b>	<b>1.6%</b>	<b>4.6%</b>
<b>New England</b>	<b>(3.4)</b>	<b>1.5</b>	<b>(2.9)</b>	<b>5.5</b>
Connecticut	(1.9)	1.2	(7.6)	13.2
Maine	4.1	5.5	2.5	4.1
Massachusetts	(5.8)	0.5	(2.9)	2.5
Rhode Island	3.7	8.4¶	4.5	5.9
Vermont	2.8	1.7	5.1*	5.6
<b>Mid-Atlantic</b>	<b>(0.6)</b>	<b>(0.1)</b>	<b>1.9</b>	<b>6.2</b>
Delaware	(4.6)	3.1	(0.6)	5.4
Maryland	(1.1)	6.1	2.2	3.1*
New Jersey	1.9	3.3	4.8	7.9
New York	(1.2)	(3.5)	1.5	8.0*
Pennsylvania	0.1	3.0	1.5	3.0
<b>Great Lakes</b>	<b>(1.4)</b>	<b>4.0</b>	<b>(0.4)</b>	<b>(0.3)</b>
Illinois	(0.7)	(0.7)	(0.9)	ND
Indiana	2.1	(7.9)	(9.1)*	2.6
Michigan	(2.4)¶	2.1¶	(1.8)¶	(4.7)
Ohio	2.8*	2.4	1.6	0.8
Wisconsin	(9.2)	18.0	1.0	2.2
<b>Plains</b>	<b>2.2</b>	<b>2.2</b>	<b>1.5</b>	<b>3.8</b>
Iowa	6.7	2.6	1.9	3.5
Kansas	2.7	5.1	(0.9)	3.8
Minnesota	1.6	0.8	2.0	3.6
Missouri	0.7	1.4	1.5	ND
Nebraska	1.7	6.3	0.9	3.7*
North Dakota	0.6	2.1	10.8	4.6
<b>Southeast</b>	<b>3.3</b>	<b>2.0</b>	<b>1.5</b>	<b>3.7</b>
Alabama	8.9	8.7	(2.1)	5.2
Arkansas	6.3	4.2	1.3	3.6
Georgia	2.3	1.5	(2.0)	3.9
Kentucky	4.0	3.2	(0.7)	4.1
Louisiana	0.6	23.2*	22.7	19.3*
Mississippi	1.8	4.8	10.8	(4.8)
North Carolina	3.0*	(3.5)	0.0	2.0
South Carolina	3.8	2.4	2.1	2.2
Virginia	3.0	0.8	2.6	4.6
West Virginia	(0.6)	6.3	9.1	(4.3)
<b>Southwest</b>	<b>1.1</b>	<b>8.6</b>	<b>1.1</b>	<b>2.6</b>
Arizona	(2.8)	2.6	3.6	(2.5)
New Mexico	7.5	11.5	(3.7)	13.8¶
Oklahoma	3.4	14.6*	0.6*	3.7
<b>Rocky Mountain</b>	<b>(0.9)</b>	<b>1.3</b>	<b>(0.8)</b>	<b>3.1</b>
Colorado	(0.8)	0.0	(1.4)	2.0
Idaho	1.0	1.9	(0.1)	3.5
Montana	1.0	7.6	9.9	6.6
Utah	(2.5)	2.0	(2.9)	4.1
<b>Far West</b>	<b>0.2</b>	<b>2.5</b>	<b>5.9</b>	<b>7.7</b>
California	0.2*	2.6*	6.5*	8.2
Hawaii	2.1¶	6.5	1.8	5.7¶
Oregon	(0.6)	0.7	3.1	4.7*

Note: Nine states — Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no personal income tax and are therefore not shown in this table.  
See page 5 for Notes.

## Underlying Reasons for Trends

These revenue changes result from three kinds of underlying forces: differences in state economies, how these differences affect each state's tax system, and recently legislated tax changes.

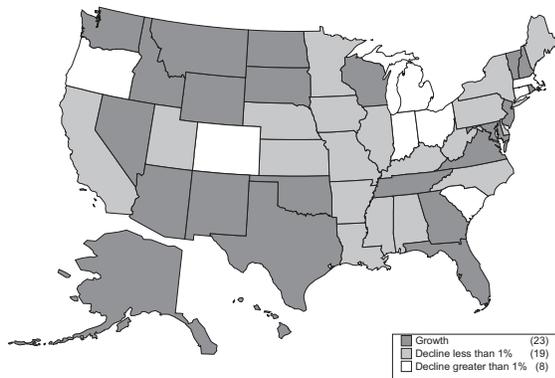
## State Economies

The national economy is beginning to show some real strength, though with some areas of continued weakness. The Bureau of Economic Analysis' (BEA's) preliminary estimate for the Gross Domestic Product (GDP) showed growth of 8.2 percent for the third quarter of 2003.<sup>4</sup> The national unemployment rate was 6.1 percent for the third quarter, down only slightly from its post-recession peak.<sup>5</sup>

The problem with assessing state economies in a report such as this is a general lack of timely state indicators. Data on non-farm employment, tracked by the Bureau of Labor Statistics (BLS), are the only broad-based, timely, high-quality state-level economic indicators available. Yet these data are far from ideal indicators of revenue growth. For one thing, most taxes are based upon nominal measures such as income, wages, and profits, rather than employment. Unfortunately, state-level data on these nominal measures — when they are available at all — usually are reported too late to be of much use in analyzing recent revenue collections. Moreover, employment data is sometimes subject to large retroactive revisions. In times of growth, these revisions are usually upwards, but lately significant downward revisions have occurred as the indicators have lagged the recent economic downturn.

Table 8 shows year-over-year employment growth for the nation and for each state during the last four quarters using BLS data. maps the change in third quarter 2003 employment compared to the same period in 2002. Overall, employment in the July-September 2003 quarter declined by 0.3 percent compared to the year before. This is the eighth straight quarter of decline in the national employment numbers, although

**Figure 6**  
**Change in Non-Farm Employment**  
**July-September 2002 to 2003**



the rate of decline is now rather modest.<sup>6</sup> The employment picture has also become rather uneven, with continued decline in some states, while other states are now showing strong growth.

Employment declined on a year-over-year basis in all but two regions of the country. The Great Lakes region had the largest decline at one percent. The Southwest had the strongest growth at 0.4 percent. Employment declined in 27 states, the same number as the previous quarter. Ten states had employment declines of one percent or more. The largest decline was in South Carolina at 1.9 percent. In contrast, six states had growth of over one percent. Nevada had the strongest growth at 2.2 percent.

Twelve states have had employment growth persisting through the last four quarters, while 12 other states have had persistent employment declines over the same period. These winners and losers are scattered through out almost every region of the country with no apparent pattern.

### **Nature of the Tax System**

Even if the recession and recovery affected all regions and states to exactly the same degree and at exactly the same time, the impact on state revenue would still vary because states' tax systems react differently to similar economic situations. States that rely heavily on the personal income tax took a harder hit from the most recent economic downturn, since it reduced income generated at the high

**Table 7. Estimated Payments/Declarations**  
**(change year-over-year)**

State	April-September 2002 to 2003 (First three payments)	September 2002 to 2003 (Third payment only)
<b>Average</b>	<b>(6.6)%</b>	<b>0.6%</b>
<b>Median</b>	<b>(3.6)</b>	<b>(1.1)</b>
Alabama	(7.1)	(8.3)
Arkansas	1.6	(3.0)
California	(4.1)	(0.6)
Colorado	0.3	(0.7)
Connecticut	0.4	4.2
Delaware	7.6	19.6
Georgia	1.3	(1.8)
Hawaii	(16.5)	(12.1)
Indiana	(2.7)	(0.2)
Iowa	0.5	1.6
Kansas	(11.6)	(9.1)
Kentucky	10.7	17.3
Louisiana	(11.9)	(22.8)
Maine	(3.7)	(0.9)
Maryland	(24.4)	0.0
Massachusetts	4.1	(2.8)
Michigan	(5.9)	(4.3)
Minnesota	(3.3)	7.5
Mississippi	(10.5)	6.2
Montana	4.9	6.9
Nebraska	(9.8)	(8.0)
New Jersey	(3.7)	(3.7)
New Mexico	(32.0)	(89.4)
New York	(3.2)	15.2
North Carolina	(6.8)	(5.2)
North Dakota	1.1	1.1
Ohio	(7.8)	(5.0)
Oklahoma	(7.4)	4.4
Oregon	1.2	(2.3)
Pennsylvania	(1.1)	2.0
Rhode Island	(3.5)	(8.2)
South Carolina	(4.2)	2.0
Vermont	(9.0)	(6.0)
Virginia	(3.2)	(0.6)
West Virginia	(6.2)	(4.7)
Wisconsin	1.2	(1.3)

end of the income scale, the income that is taxed most heavily. This was most evident in states with more progressive income tax structures. The sales tax is also very responsive to economic conditions, but is historically less elastic than the personal income tax – dropping more slowly in bad times and increasing more slowly in good times. The states that rely heavily on corporate income taxes or severance taxes often see wild swings in revenue that are not necessarily related to general economic conditions. (Severance taxes are taxes on the re-

## State Tax Revenue Grows Slightly

**Table 8. Year-Over-Year Percentage Change In Non-Farm Employment by State, Last Four Quarters**

	2002		2003	
	Oct.- Dec.	Jan.- Mar.	April- June	July- Sept.
<b>United States</b>	<b>(0.4)%</b>	<b>(0.2)%</b>	<b>(0.3)%</b>	<b>(0.3)%</b>
<b>Sum of States</b>	<b>(0.2)</b>	<b>0.0</b>	<b>(0.3)</b>	<b>(0.2)</b>
<b>New England</b>	<b>(1.0)</b>	<b>(0.7)</b>	<b>(1.0)</b>	<b>(0.9)</b>
Connecticut	(0.9)	(0.9)	(1.1)	(1.2)
Maine	0.0	0.1	(0.5)	(0.5)
Massachusetts	(1.5)	(1.1)	(1.4)	(1.4)
New Hampshire	(0.6)	0.0	(0.3)	0.0
Rhode Island	0.7	0.5	0.1	0.5
Vermont	(0.1)	0.9	1.0	1.4
<b>Mid Atlantic</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>(0.1)</b>
Delaware	(0.6)	(0.8)	(0.3)	(0.5)
Maryland	0.1	0.2	0.3	0.5
New Jersey	0.1	(0.1)	0.4	0.7
New York	(0.8)	(0.6)	(0.7)	(0.5)
Pennsylvania	0.1	(0.2)	(0.4)	(0.4)
<b>Great Lakes</b>	<b>(0.6)</b>	<b>(0.3)</b>	<b>(0.9)</b>	<b>(1.0)</b>
Illinois	(0.4)	(0.1)	(0.9)	(0.9)
Indiana	(0.4)	(0.2)	(1.0)	(1.4)
Michigan	(0.7)	(0.6)	(1.2)	(1.6)
Ohio	(1.0)	(0.7)	(1.0)	(1.1)
Wisconsin	(0.4)	0.2	0.1	0.1
<b>Plains</b>	<b>(0.8)</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(0.4)</b>
Iowa	(0.5)	(0.2)	(0.4)	(0.2)
Kansas	(0.4)	0.2	(0.6)	(0.3)
Minnesota	(0.7)	(0.3)	(0.4)	(0.5)
Missouri	(1.6)	(2.2)	(1.4)	(0.7)
Nebraska	(0.6)	0.0	(0.3)	(0.2)
North Dakota	0.5	0.7	0.1	0.1
South Dakota	0.9	1.1	0.3	0.2
<b>Southeast</b>	<b>0.3</b>	<b>0.4</b>	<b>0.1</b>	<b>0.2</b>
Alabama	(0.5)	0.0	(0.8)	(1.0)
Arkansas	0.4	0.5	0.1	(0.2)
Florida	1.3	1.4	1.2	1.3
Georgia	(0.2)	(0.2)	0.4	1.4
Kentucky	(0.2)	0.0	(0.9)	(1.0)
Louisiana	(0.2)	0.3	(0.5)	(0.4)
Mississippi	0.6	0.4	(0.2)	(0.5)
North Carolina	(0.3)	(0.4)	(0.4)	(0.2)
South Carolina	0.7	0.4	(1.1)	(1.9)
Tennessee	0.2	0.4	0.0	0.0
Virginia	0.2	0.0	0.1	0.2
West Virginia	(0.7)	0.1	(0.7)	(0.6)
<b>Southwest</b>	<b>(0.1)</b>	<b>0.2</b>	<b>0.1</b>	<b>0.4</b>
Arizona	0.9	1.0	0.6	0.9
New Mexico	1.7	1.7	1.7	1.6
Oklahoma	(1.3)	(0.9)	(0.7)	0.3
Texas	(0.3)	0.1	0.1	0.3
<b>Rocky Mountain</b>	<b>(0.2)</b>	<b>0.0</b>	<b>(0.4)</b>	<b>(0.5)</b>
Colorado	(0.8)	(0.2)	(0.9)	(1.2)
Idaho	0.8	0.8	0.0	0.6
Montana	1.6	0.6	0.4	0.1
Utah	(0.4)	(0.4)	0.0	(0.2)
Wyoming	0.1	0.4	0.3	0.6
<b>Far West</b>	<b>0.2</b>	<b>0.5</b>	<b>(0.2)</b>	<b>(0.1)</b>
Alaska	3.3	1.7	1.0	0.8
California	0.0	0.3	(0.5)	(0.2)
Hawaii	2.3	2.9	2.3	2.0
Nevada	1.6	2.2	1.5	2.2
Oregon	(0.2)	0.3	(0.8)	(1.4)
Washington	(0.1)	0.5	0.2	0.0

removal of natural resources, such as oil and natural gas.)

The upside of these patterns played out particularly strongly in the late 1990s and into 2000. Most states with personal income taxes had extremely strong revenue growth, partly because the incomes of upper-income (and thus upper-bracket) taxpayers grew at a much more rapid pace than those of middle-income taxpayers. Because these high-end incomes were based more heavily upon volatile sources such as stock options and capital gains, growth in personal income tax revenue was far more subject to dramatic fluctuations than it would have been if it were based entirely on wages and salaries. In the recent recession, we saw the downside of this volatility. While initially the market downturn affected relatively few wage earners, it turned gains into losses for investors, thus sharply contracting a hitherto rich source of revenue almost overnight. Meanwhile, stock options became both less common and less lucrative. The recession lasted only eight months but it had significant after effects as the loss of investment capital manifested itself in weak employment numbers, which in turn depressed withholding.

States are also learning about how sales tax revenue responds to an economic slowdown. States that had removed more stable elements of consumption, such as groceries and clothing, from their bases, as well as those that did not capture spending on services well, were more subject to plunges in sales tax revenue as state residents became nervous about spending on optional and big-ticket items. The sales tax, however, reacted to the latest economic downturn more moderately than the personal income or corporate income taxes, generally maintaining very slow growth with no major declines.

Oil has been a wild card in state tax revenue in recent years. When the price of oil increases, oil-producing states such as Alaska, Oklahoma, and Wyoming benefit. Conversely, when the price falls, these states' revenue tends to follow suit. This dynamic often operates largely independently of the general economy.

## Tax Law Changes Affecting This Quarter

The final element affecting trends in tax revenue growth is changes in states' tax laws. When states boost or depress their revenue growth with tax increases or cuts, it can be difficult to draw any conclusions about their current fiscal condition. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when changes in the manner of processing receipts have had a major impact on revenue growth, even though these are not due to enacted legislation, as it helps the reader to understand that the apparent growth or decline is not necessarily indicative of underlying trends.

During the July-September 2003 quarter, enacted tax changes and processing variations increased state revenue by an estimated net \$2.1 billion, compared to the same period in 2002. This was the seventh quarter of net enacted tax increases.

Enacted sales tax changes accounted for a net increase of over \$800 million in the July-September quarter. Indiana, New York, and Ohio all had increases of \$200 to \$300 million. All three states increased their sales tax rates and broadened the bases of their sales taxes – the reimposition of the sales tax on clothing in New York was particularly significant.

Enacted tax changes increased personal income tax collections by a net of just under \$500 million. The largest increase was in New York where a new top rate increased collections by almost \$400 million.

Almost \$700 million in enacted changes drove up tobacco tax collections in the July-September quarter. Eighteen states increased tobacco taxes. The largest increase – almost \$150 million – occurred in Pennsylvania.

## Conclusions

July-September 2003, the first quarter of fiscal year 2004 for most states, shows some improvement over recent revenue performance. For the first time in over two years, states experienced some slight state tax revenue growth after adjusting for enacted tax increases and inflation. Nevertheless, state tax revenue growth is still lagging behind national economic growth as measured by the gross domestic product. Employment data indicated furthermore that economic growth is very uneven across the country with strong growth in some areas and persistent weakness in others. It is likely that this unevenness will be reflected in state budgets; while some states appear poised to put the bad times behind them, others continue to struggle.

## Endnotes

- 1 Idaho, Indiana, Nebraska, Nevada, New York, Ohio, Tennessee, and Wyoming.
- 2 Only Nevada and Wyoming had double-digit growth without tax increases.
- 3 Alabama, Iowa, Kentucky, Louisiana, Michigan, North Dakota, and Texas.
- 4 United States Department of Commerce, Bureau of Economic Analysis News Release, November 25, 2003.
- 5 United States Department of Labor, Bureau of Labor Statistics, *Labor Force Statistics From the Current Population Survey*, [www.bls.gov](http://www.bls.gov).
- 6 Note that the employment numbers have been revised as BLS has moved from the 1987 Standard Industrial Classification System (SIC) to the 2002 North American Industry Classification System (NAICS) and made other revisions to its sampling methodology. These revisions have not changed the overall trend.

## State Tax Revenue Grows Slightly

**Table 9**  
**State Tax Revenue, July to September 2002 and 2003 (In Millions of Dollars)**

	2002				2003			
	<i>Personal Income</i>	<i>Corporate Income</i>	<i>Sales</i>	<i>Total</i>	<i>Personal Income</i>	<i>Corporate Income</i>	<i>Sales</i>	<i>Total</i>
<b>United States</b>	<b>\$41,544</b>	<b>\$5,704</b>	<b>\$42,463</b>	<b>\$106,243</b>	<b>\$43,674</b>	<b>\$6,218</b>	<b>\$44,027</b>	<b>\$111,025</b>
<b>New England</b>	<b>3,067</b>	<b>293</b>	<b>1,873</b>	<b>6,516</b>	<b>3,222</b>	<b>378</b>	<b>1,916</b>	<b>6,792</b>
Connecticut	630	69	486	1,474	663	58	503	1,502
Maine	213	21	168	463	221	21	179	500
Massachusetts	1,927	157	956	3,616	2,021	247	961	3,777
New Hampshire	NA	33	NA	292	NA	33	NA	297
Rhode Island	193	8	208	465	209	11	271	496
Vermont	104	5	55	206	108	8	56	220
<b>Mid Atlantic</b>	<b>8,845</b>	<b>1,341</b>	<b>5,672</b>	<b>18,857</b>	<b>9,463</b>	<b>1,441</b>	<b>6,007</b>	<b>19,925</b>
Delaware	174	16	NA	385	184	15	NA	404
Maryland	778	106	442	1,461	818	120	465	1,533
New Jersey	1,092	314	1,021	2,924	1,120	381	1,048	3,026
New York	5,196	585	2,262	9,471	5,688	608	2,523	10,242
Pennsylvania	1,605	320	1,947	4,616	1,653	316	1,971	4,721
<b>Great Lakes</b>	<b>7,112</b>	<b>918</b>	<b>6,914</b>	<b>17,396</b>	<b>7,100</b>	<b>924</b>	<b>7,220</b>	<b>17,870</b>
Illinois	1,791	214	1,570	4,246	1,812	197	1,587	4,321
Indiana	885	132	979	2,302	904	114	1,173	2,470
Michigan	1,697	470	2,085	5,303	1,606	459	1,984	5,287
Ohio	1,748	(19)	1,623	3,672	1,767	17	1,800	3,870
Wisconsin	991	121	657	1,874	1,011	137	677	1,922
<b>Plains</b>	<b>2,714</b>	<b>289</b>	<b>2,327</b>	<b>5,986</b>	<b>2,810</b>	<b>280</b>	<b>2,380</b>	<b>6,117</b>
Iowa	554	53	444	1,114	571	38	443	1,113
Kansas	440	26	453	1,007	457	36	476	1,061
Minnesota	1,370	169	951	2,828	1,425	162	956	2,892
Missouri	ND	ND	ND	ND	ND	ND	ND	ND
Nebraska	302	23	252	649	308	33	280	665
North Dakota	47	19	99	217	49	11	91	205
South Dakota	NA	NA	130	172	NA	NA	135	181
<b>Southeast</b>	<b>8,373</b>	<b>1,151</b>	<b>10,834</b>	<b>23,989</b>	<b>8,600</b>	<b>1,102</b>	<b>11,209</b>	<b>24,803</b>
Alabama	563	116	443	1,533	574	65	438	1,484
Arkansas	415	57	446	975	426	62	462	1,029
Florida	NA	185	3,498	4,439	NA	189	3,672	4,736
Georgia	1,562	79	1,098	2,921	1,563	74	1,171	3,014
Kentucky	671	83	751	1,697	704	79	725	1,678
Louisiana	423	11	569	1,358	478	19	542	1,392
Mississippi	274	80	609	1,297	266	70	538	1,207
North Carolina	1,842	233	1,067	3,345	1,855	188	1,111	3,348
South Carolina	713	25	347	1,218	727	40	361	1,250
Tennessee	NA	144	1,296	2,010	NA	155	1,447	2,196
Virginia	1,653	90	458	2,513	1,760	113	489	2,724
West Virginia	258	50	251	683	247	48	255	745
<b>Southwest</b>	<b>1,301</b>	<b>165</b>	<b>5,844</b>	<b>10,562</b>	<b>1,374</b>	<b>170</b>	<b>5,875</b>	<b>10,719</b>
Arizona	579	99	751	1,525	579	112	800	1,592
New Mexico	224	29	339	711	250	26	360	799
Oklahoma	498	37	358	1,078	546	32	375	1,192
Texas	NA	NA	4,396	7,247	NA	NA	4,339	7,136
<b>Rocky Mountain</b>	<b>1,492</b>	<b>134</b>	<b>1,115</b>	<b>3,096</b>	<b>1,555</b>	<b>138</b>	<b>1,173</b>	<b>3,265</b>
Colorado	797	57	484	1,377	830	68	490	1,428
Idaho	192	27	224	532	201	24	270	588
Montana	131	13	NA	219	139	12	NA	236
Utah	373	37	373	915	385	35	375	937
Wyoming	NA	NA	34	53	NA	NA	38	77
<b>Far West</b>	<b>8,641</b>	<b>1,413</b>	<b>7,884</b>	<b>19,841</b>	<b>9,550</b>	<b>1,785</b>	<b>8,247</b>	<b>21,534</b>
Alaska	NA	14	NA	244	NA	11	NA	271
California	7,370	1,337	5,324	14,790	8,231	1,682	5,563	16,190
Hawaii	266	4	473	820	274	8	473	819
Nevada	NA	NA	539	649	NA	NA	597	725
Oregon	1,004	58	NA	1,100	1,045	84	NA	1,169
Washington	NA	NA	1,548	2,238	NA	NA	1,614	2,360

See p. 5 for notes.

## **About The Nelson A. Rockefeller Institute of Government's Fiscal Studies Program**

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others. Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues, is director of Fiscal Studies.

This report was written by Nicholas W. Jenny, a senior policy analyst with the Program. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design of this report, with assistance from Michele Charbonneau. Emrah Arbak assisted with the collection of data for this report.

You can contact the Fiscal Studies Program at The Nelson A Rockefeller Institute of Government, 411 State Street, Albany, NY 12203-1003, (518) 443-5285 (phone), (518) 443-5274 (fax), [fiscal@rockinst.org](mailto:fiscal@rockinst.org) (e-mail).

*Fiscal Studies Program*

**The Nelson A. Rockefeller  
Institute of Government**

*State University of New York*

411 State Street

Albany, New York 12203-1003

NONPROFIT  
ORG.  
U.S. POSTAGE  
**PAID**  
**ALBANY, N.Y.**  
**PERMIT NO. 21**